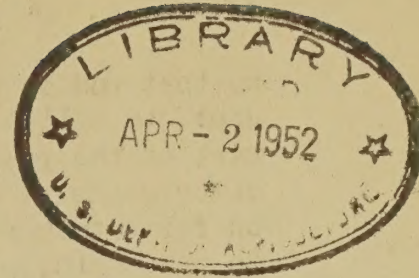


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US. UNITED STATES DEPARTMENT OF AGRICULTURE

Rural Electrification Administration. *over*

San Washington 25, D. C.



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REA FINANCING OF POWER USE EQUIPMENT //

Experience in American business indicates that no comprehensive sales program has been a success without some form of credit assistance. The success of a power use program depends in part on how well farmers use production equipment they already have. It depends in part on their ability to purchase equipment they need but do not have.

Funds authorized under Section 5 of the Rural Electrification Act may be borrowed by REA financed projects to help members acquire electrical and plumbing appliances and equipment that they need but do not have. Funds so borrowed are used to purchase deferred payment agreements entered into by members with dealers for the purchase of needed items of power use equipment. (Generally speaking, no loans are made to members) When a member purchases an item on time he pays the dealer for a portion of the total purchase price (the down payment) and signs an agreement to pay the dealer the balance over a period of time. This written promise to pay by a member can be bought by the cooperative, thus, entitling the co-op to receive the payments (both principal and interest) that the member promised to pay the dealer. The co-op pays the dealer only the balance due on the purchase price. The co-op receives from the member, in the series of payments, this amount plus the interest charge. The interest charge defrays the cost of handling the contract, making the collections, entering them in the books, and of borrowing from REA. The interest charge that the dealer adds to contracts that the co-op is to buy is determined by the co-op's board of directors, but it may not exceed a maximum specified by the Administrator. As members pay on their contracts, the sums borrowed from REA are returned. More funds can be borrowed as needed and keep the circuit open. Most contracts are guaranteed by the dealers, they assuming liability for the payment to the co-op of all amounts, principal and interest, that the member does not pay.

In this simple, easy to understand and easy to operate way, the co-op can help its members acquire power use equipment that they need and do not have. But why should a cooperative launch such a program, no matter if it is easy to understand and operate?

Anyone in the REA program who has devoted a great deal of thought, time and energy over a period of years to the building of line is apt to regard the building of power lines as the end purpose of all his labors. But let's ask the questions: Is electricity at the meter the end purpose or the means to an end? The truth is that power lines and generating stations are but means to an end. The end purpose of rural electrification is the use of power. The use of power in rural homes and farm enterprises for all good, useful and productive purposes is our goal. Rural electrification may be described therefore as the state or condition in which electric energy may be used by persons in rural areas for any purpose useful or beneficial to them. Obviously, the first major means to that end is a generating station where power is made. The second major means

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to that end is a power line over which electricity may travel to points of use: to outlets of all types in homes and farm buildings. (And a necessary part of the power line is wiring in users premises) The third and last major means to our end purpose is the electrical equipment in homes and on farms that performs useful and helpful tasks. Let's call this last link in our chain, power use equipment. So, a generating station, a power line, and power use equipment add up to our end goal: rural electrification - or use of power. All three links are needed to forge the complete chain. No link by itself is of any use. Each by itself is a dud. The REA has accomplished a great deal in fifteen years in helping rural people forge the second link: power line. It has accomplished much in helping them forge the first link: generation of power. It has accomplished the least in helping them forge the last link: in helping them acquire power use equipment for their homes and farms. To be of more help in that matter is why we have fashioned a tool for that purpose, or rather, refashioned an old one. By means of the simple financing procedure already briefly described, REA financed projects will be able in the future to be of much greater help than they have been in the past in aiding their members acquire the power use equipment needed by them to make rural electrification fully effective in their homes and on their farms. Copies of the new section 5 procedure will be sent to all cooperatives when they become available. In the meantime, we shall be glad to be of special assistance to managers and boards of directors who desire to make an early start in this field of service to members.

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2a Applications and Loans Division //

January 21, 1952

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